



# County of Los Angeles CHIEF ADMINISTRATIVE OFFICE

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July 24, 2006

To: Mayor Michael D. Antonovich  
Supervisor Gloria Molina  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

From: David E. Janssen  
Chief Administrative Officer

## SACRAMENTO UPDATE

### Los Angeles Economic Development Corporation Mid-Year Economic Update

On Wednesday July 12, 2006, the Los Angeles Economic Development Corporation (LAEDC) presented its mid-year update of the Annual Economic Forecast for 2006-07. This is the first year that the LAEDC has presented a mid-year update to complement its annual forecast.

### **National Economy**

LAEDC's forecast for the national economy is for growth in 2006 at about the same level as in 2005 (3.5 percent) with a slight slowdown in 2007 to about 3 percent. The first quarter of 2006 showed a growth rate of 5.6 percent. This rate is generally assumed to be unsustainable considering the limitations on the labor supply. It is the primary reason for the lower predicted growth rate for the entire year. The nation's unemployment rate is expected to stabilize through 2007 at the current level of 4.6 percent based upon continued job growth. This represents a substantial improvement from the 6.3 percent unemployment rate in June 2003.

Inflation: Inflation is estimated to grow 3.4 percent in 2006 which is similar to the increase in 2005. A slight slowing in the rate to 2.6 percent is forecast in 2007 despite persistently high energy prices.

Interest Rates: Interest rates are expected to rise over the next year with the Federal funds rate increasing from 5.25 percent to 5.5 percent by the end of 2006 and perhaps as high as 6 percent in 2007. In LAEDC's view, the Federal Reserve does not appear to be taking a forceful approach in announcing interest rate increases which creates some uncertainty in the financial markets. The Federal Reserve is likely to engage in a close review of the economic data, and there may be some hesitancy to pursue consecutive rate increases until it sees what the impact of the previous increases will have on the economy. The forecast of some future interest rate increases will put upward pressure on 30-year fixed mortgage rates as they will increase to 6 percent by the end of 2006 and rise to the low 7 percent range during 2007.

Housing Market: As expected, the housing market is softening with the number of new housing starts at 1.9 million units, which is lower than the 2.1 million annual rate experienced earlier this year. By the end of the year, the rate is expected to drop further to a 1.7 million level. Housing price appreciation is expected to drop from approximately 15 percent a year to a more normal 5.3 percent a year.

The lack of reliable indicators of future consumer spending, energy prices, labor costs and the price of non-energy goods has created more uncertainty than usual about the future performance of the economy.

## **California**

The State is expected to continue a pattern of steady growth through the remainder of 2006 and into 2007. Non-farm employment is expected to grow by 1.6 percent or 247,600 jobs. The largest increase will be in the leisure and hospitality services area followed by administrative services. The forecast projects an ongoing increase in construction jobs despite the softening in the housing market. Unemployment is expected to be 4.9 percent in 2006 and increase to 5.1 percent in 2007. While the unemployment rate in California has followed the national trend of declining rates since 2003, the rate in the State will continue to be higher than the national average.

## **Southern California**

The Southern California economy will continue to perform well with only a slight decline in 2007 despite the slowing of the housing market, the increase in interest rates and ongoing high energy costs.

Activity will be strong in the international trade and tourism sectors as well as in non-residential real estate and public works projects. The Ports of Los Angeles and Long Beach are expected to set records for the amount of cargo processed in 2006. Both Los Angeles and Orange Counties are expected to receive a record number of tourists this year.

The residential housing market is slowing down and the price appreciation is also slowing. Nevertheless, housing prices are still expected to increase by 8 percent for 2006. The High Desert and Los Angeles County appear to be the strongest markets, while there are slight declines in prices predicted for the Palm Springs and North Santa Barbara County areas. Housing prices are difficult to predict as there is some cyclical movement within a year. One statistic that would indicate a slowdown is the unsold inventory of homes. In the first quarter of 2004, the number of homes for sale was less than 1.5 months of sales. As of May 2006, the number of homes in inventory increased to 5.7 months. This is viewed as a historically normal level of inventory. While this level is substantially higher than the 2004 inventory, it is not expected to lead to a sharp decline in real estate prices as occurred in the early 1990s. At that time, the inventory approached 22 months of sales. For the year, sales are estimated to decline 16.8 percent.

The vacancy rate for apartments is decreasing and therefore, rents are likely to move upward significantly after a period of modest increases. The current high project costs are discouraging the creation of adequate numbers of new units to meet demand.

The office vacancy rate in Los Angeles County is at 10.2 percent. This is over 3 percent lower than the national average and represents the tightest market in the County since the 1980s. This is not the lowest vacancy rate in the region; however, Orange County has a vacancy rate of 7 percent. The vacancy rate in the Inland Empire is also approximately 7 percent.

The industrial property vacancy rate in Los Angeles County is 2 percent. This is almost half the rate of both the Inland Empire and Orange County. The national vacancy rate of 8 percent is four times that of Los Angeles County. As can be expected, rents for industrial property in the Southern California region are 50 percent to 100 percent higher than the national average. The exception would be that rents in the Inland Empire are comparable to the national average.

### **Los Angeles County**

Personal income in the County is expected to increase by 5.7 percent which would be slightly higher than the 5.6 percent rate of inflation in the County.

Los Angeles County is expected to see an increase of 52,800 jobs in 2006, or about a 1.3 percent increase. While on a percentage basis, it would place the County behind Riverside-San Bernardino (2.9 percent); Ventura (1.8 percent); San Diego (1.7 percent); and Orange County (1.4 percent); it would represent the best performance since 2000. The leisure and hospitality services area will be the largest growth area followed by the construction sector. The manufacturing sector continues to show a decline in jobs but it seems to be stabilizing. The unemployment rate for the County is estimated to mirror the State rate of 4.9 percent in 2006, rising to 5.1 percent in 2007.

Major construction projects will continue to provide support for the County's economy with projects such as the Gold Line extension to East Los Angeles, the Exposition Boulevard light rail line, as well as the LA Live and Grand Avenue projects in 2007.

### **Forecast for Specific County Areas**

LAEDC also presented economic forecasts for individual areas of the County which are included in an attachment.

### **Telecommunications Reform**

One of the higher-profile issues facing the Legislature and Governor during the last weeks of the Session is **County-oppose-unless-amended AB 2987 (Nuñez)**. The bill proposes to create a statewide franchising authority for the provision of cable or video services by phone companies. It was amended June 29, 2006 in the Senate Energy, Utilities and Communications Committee, but those amendments are not in print since the Legislature adjourned for its Summer Recess on the same day.

Among the amendments adopted in the Senate Energy Committee was a provision allowing current cable TV franchisees to abrogate their contracts if phone companies declare their intent to offer service in an area served by a cable franchisee. As drafted, this provision would jeopardize the continuation of County-negotiated Public, Educational and Government (PEG) channels, as well as free connections for schools, libraries and government facilities and the County's video-on-demand channel.

The amended bill continues to require further modification to ensure that the County's franchise fee and property tax-possessory interest revenues are protected, that the new State-franchised video services will be available to all residents of the County ("build-out" requirements) and that there is a fall-back mechanism to preserve County franchise fee revenues in the event that the State-imposed fees are judged unconstitutional.

We will continue to keep you advised.

DEJ:GK  
MAL:JF:IGR:cc

### **Attachment**

c: All Department Heads  
Legislative Strategist  
Local 660  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities

### **LAEDC Forecast for Los Angeles County Areas**

- West San Fernando Valley - This area will experience continued job growth despite ongoing losses in the manufacturing and motion picture industry. Growth will be in the business and professions, and education and health sectors. Office vacancy rates have dipped below 10 percent which is average for the County but lower than the nationwide average.
- East San Fernando Valley - This area has experienced a decline in job growth after peaking in 2004. Losses are in manufacturing, and the profession and business services sectors. Growth in passenger traffic at Bob Hope Airport has provided an economic bright spot. The high concentration of motion picture and television production employment in this area would make it sensitive to the pending labor negotiations in the industry. Office vacancy rates are in the 5 percent range.
- Santa Clarita/ Valencia - This area will experience continued job growth in the construction, retailing and education and health sectors. Contrary to the larger trends, manufacturing employment will increase slightly. The market for industrial real estate appears to be strong.
- Antelope Valley - This area will experience continued job growth in the retail sector. It continues to benefit from the availability of land and affordable housing. The strong employment in aerospace research and development provides an average salary of \$53,636 which is significantly higher than the County average of \$45,744. Overall, the Antelope Valley will show the strongest job growth in 2005-06.
- San Gabriel Valley - This area will experience continued job growth in the financial services and construction sectors which will offset the decline in manufacturing employment. The area faces a shortage of available land and is losing possible industrial land to residential uses. This will further compress an industrial real estate vacancy rate of 1.8 percent. The office vacancy rate is about 10 percent, which is the County average.
- East Los Angeles/Eagle Rock - This area will reach a new high level of employment due to growth in the retailing, and transportation and warehousing sectors. This offsets a decline in manufacturing employment. There is significant development activity due to the affordability of residential housing and its proximity to several employment centers. Construction on the LAC+USC Hospital and the extension of the Gold Line to East Los Angeles are among the major development works occurring in the area.

- Westside - This area will experience continued job growth in the professional and business services, and the finance sectors. The manufacturing sector in this area appears to be holding its own. This average salary is the highest in the county at \$60,500. The potential for a labor dispute in the entertainment and hotels sectors is a source of concern. The office vacancy rate is 8 percent which is below the County average. While not the tightest office market, this area commands the highest rents for office space.
- South Bay/ LAX - This area continues to add jobs, but it has not yet recovered to the high levels of employment reached in 1990 at the beginning of the downsizing in the aerospace industry. Growth has occurred in the retailing, and leisure and hospitality sectors. The manufacturing sector has shown some growth primarily due to work at Northrup Grumman. Manufacturing employees receive average annual salaries of \$64,756, higher than the average salaries in the most affluent area, the Westside. The office vacancy rate, the highest in the County at 16.1 percent is primarily due to the occupancy problems in the Century Boulevard Corridor. The industrial vacancy rate is much lower at 2.9 percent.
- Long Beach/Lakewood - This area will continue to experience job growth in the transportation and warehousing, and retailing sectors, but this growth will be offset by the ending of the production of the Boeing 717 and uncertainties regarding the future of the C-17 military cargo plane. Traffic at the Port of Long Beach continues to be strong, and the tourism industry in Long Beach is expected to continue to perform well. Office vacancy rates are 11 percent which is slightly above the county average.
- North Gateway - The high number of manufacturing jobs in this area has made employment subject to economic cycles. While the area is expected to increase the number of jobs in 2007 over that in 2006, employment will not reach the levels of 1999. Manufacturing jobs continue to be lost, but they are offset by growth in professional and business services, and the wholesale trade sectors. The area has a significant investment in the apparel industry which is changing from domestic manufacturing to importation which contributes to a reduction in employment. The industrial vacancy rate is 2.5 percent yet, there appears to be little new space under construction. The average annual manufacturing wage in this is \$39,929 which is about 62 percent of the wages in the South Bay/LAX area.
- South Los Angeles Area - This area will experience a decline in employment for the fourth straight year in 2006. The 80,494 jobs reflect only 84 percent of the jobs in 1991. The only growth sector is the information sector, which includes the motion picture industry. The South Los Angeles area has the lowest annual income of any area in Los Angeles County at \$28,949.

- Crenshaw/Mid-Cities/Hollywood - This area will see flat employment growth with declines in the manufacturing and information sectors, offset by increases in the professional and business services, and leisure and hospitality sectors. The area's Koreatown location has increased in popularity for residential housing due to its proximity to the Westside, LAX, and Downtown. Traffic congestion is expected to lessen with the construction of the Exposition Boulevard light rail line. The office vacancy rate is 8.8 percent with little new office space under development.
- Central/Downtown Los Angeles - This area will see flat employment growth and is expected to reach only 71 percent of the job level in 1995. The business and professions, and financial sectors are the strongest employers. The industrial vacancy rate is 1.4 percent with some new construction occurring. The office vacancy rate is 15 percent which is higher than the County average. The Downtown area is involved in a number of residential housing efforts as well as other major projects such as LA Live, the Gold Line Extension, the Colburn School of Music and Los Angeles Trade Tech College which will continue to support construction employment.